

Message Text

LIMITED OFFICIAL USE

PAGE 01 ACCRA 07137 311116Z
ACTION AF-10

INFO OCT-01 ISO-00 IO-13 AID-05 CIAE-00 COME-00 EB-08
FRB-03 INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02
OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
STR-07 CEA-01 AGRE-00 ABF-01 EUR-12 /115 W
-----042173 311119Z /10

P 310748Z AUG 78
FM AMEMBASSY ACCRA
TO SECSTATE WASHDC PRIORITY 5375

LIMITED OFFICIAL USE ACCRA 7137

EO 11652: NA
TAGS: EFIN, EAID, GH
SUBJ: DEVALUATION: ADDITIONAL COMMENT ON GHANA'S POLICY THINKING

REF: (A) ACCRA 7045; (B) ACCRA 6822; (C) ACCRA 6969

1. SUMMARY. BANK OF GHANA DEPTUTY GOVERNOR BOTCHWAY
CONFIRMED TO US AUGUST 29 THE COMMENTS ON GHANA'S AUGUST
25 DEVALUATION OFFERED REFTEL A, INCLUDING IMPLICATION
FOR FURTHER EXCHANGE RATE ADJUSTMENTS. BOTCHWAY ALSO SAID
THAT ARTICLE IV CONSULTATIONS WITH THE IMF WOULD PROBABLY
NOT BE CONCLUDED UNTIL THE TIME OF THE ANNUAL IMF/IBRD
MEETING (REFTEL C). WE UNDERSTAND GHANA'S DRAFT BUDGET
IS BEING DISCUSSED WITH IMF OFFICIALS THIS WEEK AND
RECOMMEND SOMEONE FROM AF/W AND FROM AID SEEK A DEBRIEFING
FROM THE IMF. END SUMMARY.

2. ECON COUNSELOR CALLED AUGUST 29 ON BANK OF GHANA DEPTUTY
GOVERNOR S.K. BOTCHWAY (GOVERNOR ASHIAGBOR IS OUT OF GHANA)
TO OBTAIN OFFICIAL COMMENT ON AUGUST 25 SHARP DEVALUATION
OF 39 PERCENT (REFTEL A). DEPUTY GOVERNOR CONFIRMED
COMMENTS (PARA 4 REFTEL) AND ADDED A FEW ADDITIONAL
BITS OF INFORMATION: (A) FURTHER ADJUSTMENTS EXPECTED.
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 ACCRA 07137 311116Z

AT FIRST, EXCHANGE RATE ADJUSTMENTS HAD BEEN EXTREMELY
CAUTIOUS; HAPPILY, A "PSYCHOLOGICAL BARRIER" HAD BEEN
SUCCESSFULLY BROKEN. IT HAD NOW BECOME POSSIBLE TO MAKE A LARGER
ADJUSTMENT AT ONE TIME. ALTHOUGH NO POLITICAL PROBLEMS HAD
YET ARISEN THERE WERE "POLITICAL AND SOCIAL" CONSIDERATIONS
AFFECTING THE "SUSTAINABLE (EXCHANGE) RATE"; TOO DEEP A
DEVALUATION WOULD CAUSE AN "INTOLERABLE ADJUSTMENT";

THE BLACK MARKET RATE, WHICH BOTCHWAY PLACED AT FIVE CEDIS TO THE DOLLAR (I.E., ONE CEDI EQUALS TWENTY CENTS US). WAS SIGNIFICANTLY INFLUENCED BY "SPECULATIVE ELEMENTS", AND WAS NOT GOOD INDICATOR OF THE EQUILIBRIUM RATE. HAVING SAID THIS, DY GOVERNOR IMPLIED THAT GHANA'S "MANAGED FLOAT" WOULD SEE THE CEDI DEVALUED FURTHER, NOT MERELY ADJUSTED AROUND ITS PRESENT 36 CENT (US) LEVEL. (B) ARTICLE IV CONSULTATIONS WITH IMF. WHILE NOT DENYING EARLIER REPORTS THAT GOG OFFICIALS WERE TO DISCUSS THE CRAFT BUDGET WITH IMF OFFICIALS THIS WEEK, AS PART OF THE ARTICLE IV DISCUSSIONS INAUGURATED IN EARLY AUGUST HERE (REFTEL B), BOTCHWAY DID NOT BELIEVE THAT THOSE CONSULTATIONS WOULD BE CONCLUDED BEFORE THE ANNUAL FUND/BANK MEETING IN WASHINGTON AT END-SEPTEMBER. SIMULTANEOUSLY, GHANA IS DISCUSSING A POSSIBLE STAND-BY LOAN AND STABILIZATION PROGRAM WITH THE IMF. (C) MONETARY POLICY. THE GOG HAD DECIDED ON "CREDIT AND INTEREST RATE" POLICY CHANGES, BUT THESE WOULD NOT BE COMMUNICATED TO COMMERCIAL BANKS FOR IMPLEMENTATION UNTIL AFTER THE BUDGET WAS ISSUED. (D) EXPORT BONUS AND TRAVEL TAX. DESPITE THE 58 PERCENT DEVALUATION TO DATE, AND THE BUDGETARY COST, THE EXPORT BONUS (20 PERCENT OR 30 PERCENT DEPENDING ON PRODUCT EXPORTED) WOULD BE CONTINUED, AT LEAST FOR SOME TIME, WHILE THE TRAVEL TAX (30 PERCENT ON FOREIGN EXCHANGE COST OF FOREIGN TRAVEL) WOULD DEFINITELY BE CONTINUED. ECON COUNSELOR LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 ACCRA 07137 311116Z

INFERRED THAT BUDGET WOULD PROBABLY LEAVE BOTH OF THESE UNCHANGED.

3. DEBRIEFING FROM IMF. WE SUSPECT THAT THE FY 1979 BUDGET DEFICIT AND EXCHANGE RATE POLICY (I.E., DEPTH OF DEVALUATION) ARE MAJOR ITEMS OF DISCUSSION WITH IMF. IN ANY CASE, WE BELIEVE IT WOULD BE MOST USEFUL IN LIGHT OF IMPORTANCE FOR US AID POLICY TO GHANA (REFTEL B AND STATE 184659) TO HAVE A DEBRIEFING FROM THE FUND ON THE DISCUSSIONS WITH GHANA. WE RECOMMEND THAT SOMEONE FROM AF/W AND AID MEET WITH IMF AFRICAN DEPARTMENT OFFICIALS AND LET US KNOW WHERE MATTERS STAND. (ARTICLE IV MISSION LEADER G.B. TAPLIN WOULD BE LOGICAL IMF OFFICIAL TO APPROACH). HOLMES

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLICIES, DEVALUATIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 31 aug 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978ACCRA07137
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780355-1223
Format: TEL
From: ACCRA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t1978081/aaaaaash.tel
Line Count: 108
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 03b08457-c288-dd11-92da-001cc4696bcc
Office: ACTION AF
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 78 ACCRA 7045, 78 ACCRA 6822, 78 ACCRA 6969
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 27 apr 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1537124
Secure: OPEN
Status: NATIVE
Subject: DEVALUATION: ADDITIONAL COMMENT ON GHANA'S POLICY THINKING
TAGS: EFIN, EAID, GH
To: STATE
Type: TE
vdkgvwkey: odhc://SAS/SAS.dbo.SAS_Docs/03b08457-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014